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GAIN Report

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Required Report - public distribution

Date: 11/25/2016

GAIN Report Number: TH6142

Thailand

Cotton and Products Update

November 2016

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Report Highlights:

MY2016/17 cotton imports are likely to recover from a recent downturn in anticipation of a sustained economic recovery and increased domestic demand for garments in the first half of the year.

MY2015/16 cotton imports were lower than expected as imports of yarn surged causing Thai spinners to increase their yarn inventories.

Post:

Bangkok

Executive Summary:

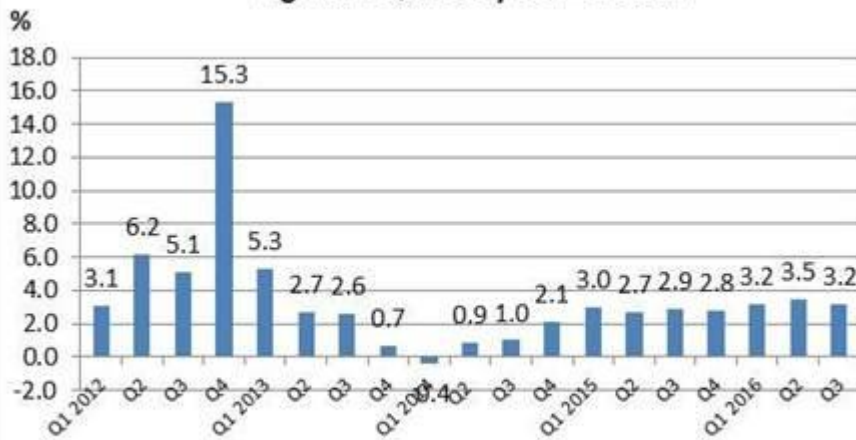
MY2016/17 cotton imports are expected to increase 6 percent to 1.4 million bales as spinning mills are running down their large inventories of yarn due to a sustained economic recovery and higher-than-expected demand for black clothing to wear for the mourning period following the passing of King Bhumibol Adulyadej on October 13, 2016. Imports of U.S. cotton are likely to increase to 450,000 bales due to competitive prices and high-quality standards at many mills.

MY2015/16 cotton imports are lower-than-expected at around 1.3 million bales, down 13 percent from MY2014/15 as spinning mills were forced to hold large inventories of yarn. Thai spinners faced competition from relatively cheaper cotton yarn imports, notably from Vietnam and India, which increased 44 percent from the previous year. Imports of U.S. cotton declined 15 percent from MY2014/15. However, U.S. market share remained unchanged at approximately one-third of total cotton import demand. Meanwhile, Brazilian cotton imports increased significantly and gained market share at the expense of Australian and African cotton imports.

Updated Market Situation and Outlook for Upland and Valued-Added Cotton

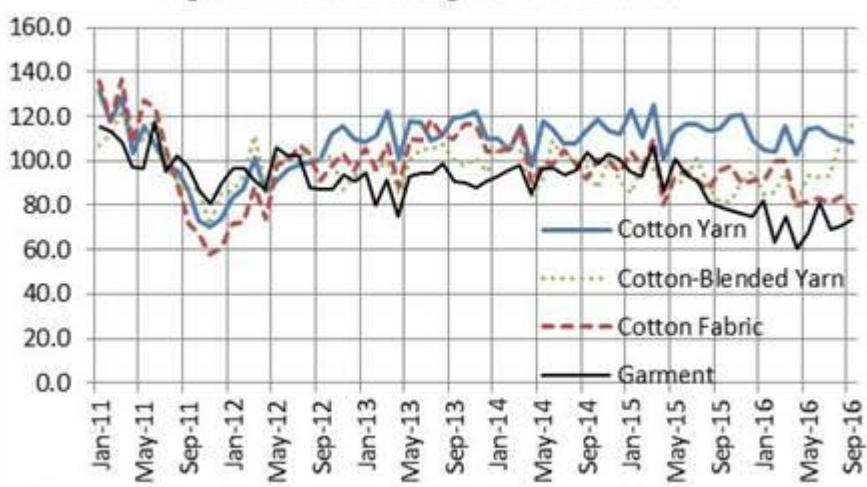
MY2016/17 cotton imports are forecasted to increase to around 1.4 million bales, up approximately 6 percent from MY2015/16 (Table 1). Thai spinning mills are expected to recover from the economic downturn over the past couple of years in anticipation of a sustained economic recovery in 2016 – 2017. According to the most recent official economic forecast by the National Economic and Social Development Board, the Thai economy is expected to grow at a rate of 3-4 percent in MY2016/2017 (Figure 1). Additionally, spinning mills reportedly ran down their large inventories of cotton and cotton-blended yarn due to higher-than-expected demand for black clothes in the last quarter of 2016 resulting from the passing of King Bhumibol Adulyadej on October 13, 2016. The official mourning period will take for a year. Presently, spinning mills' capacity utilization has increased to an average of around 60 percent of full capacity, up approximately 3 percent from the same period last year. Production of cotton and cotton-blended yarn increased approximately 12 percent in the first two month of MY2016/17 (Figure 2).

Figure 1: Quarterly GDP Growth



Source: National Economic and Social Development Board

Figure 2: Manufacturing Production Index



Source: Office of Industrial Economics, Ministry of Industry

MY2016/17 imports of U.S. cotton are expected to increase to 450,000 bales, up 6 percent from MY2015/16. Large-scale spinning mills which account for approximately 60 percent of total cotton yarn production still maintain their competitive edge in domestic and export markets as they have invested in new machinery and improved their production efficiency. These mills are the main customers of U.S. cotton. Also, many small-scale spinning mills reportedly preferred U.S. cotton to cotton from other origins, particularly for mixed grade cotton due to its competitive prices and high-quality standards. However, competition from cheaper yarn imports from Vietnam and India will likely remain a challenge to domestic yarn producers, particularly for small-scale spinning mills.

MY2015/16 cotton imports were lower than expected at around 1.3 million bales, down 13 percent from MY2014/15 (Figure 3). This reflected a reduction in cotton and cotton-blended yarn production which declined approximately 5 percent as spinning mills were forced to hold large inventories of yarn. Imports of cotton yarn increased 44 percent from MY2014/15 (Figure 4) with cotton yarn imports from

Vietnam and India doubling. Additionally, exports of cotton yarn declined 28 percent from the previous year, particularly to China and Japan due to an economic slowdown and competition from Vietnam. These two countries accounted for approximately 70 percent of total cotton yarn exports from Thailand.

MY2015/16 imports of U.S. cotton declined to 424,113 bales, down 15 percent from MY2014/15 (Table 2). However, U.S. cotton still maintained its market share accounting for approximately one-third of total cotton import demand. Meanwhile, medium-scale spinners who limited their purchases to cheap cotton to maintain their operations imported more Brazilian cotton. Imports of Brazilian cotton increased significantly to 233,993 bales, up 12 percent from the previous year. Brazil's market share increased to 18 percent of total cotton imports, compared to 8 percent in MY2014/15 at the expense of Australian and African cotton imports.

